

To Members of the California State Senate:

I am returning Senate Bill 1508 without my signature.

This bill was introduced in response to a widely publicized landlord who owned 44 properties in the Sacramento area. Thirty-one (31) of these properties had some form of code violations ranging from minor to major violations. The owner of these properties refinanced his mortgages and received proceeds from the equity in the properties, however, did not utilize the funds to correct or fix these code violations. I feel strongly that landlords should be held responsible when their properties are in disarray and tenants are subjected to conditions that pose significant safety and health risks. However, this bill does not further that result and goal.

This bill prohibits certain mortgage lenders from making a loan secured by a deed of trust or mortgage on non-owner occupied residential property if there is a code violation pending. The bill specifically exempts federal lending institutions and banks chartered by the State of California through the Department of Financial Institutions.

This bill creates an uneven regulatory playing field creating a hardship and competitive disadvantage for those financial institutions which are subject to the restrictions of this bill. Additionally, the requirements of this bill could result in lenders being unwilling to finance loans with code violations; increasing the likelihood code violations will go uncorrected.

Finally, SB 1508 would make certain lenders de facto code enforcers, a function that should remain with the local municipality.

Sincerely,

Arnold Schwarzenegger